

GRANT WOOD AREA EDUCATION AGENCY 10
Cedar Rapids, Iowa

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
FINDINGS AND QUESTIONED COSTS
June 30, 2005

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GRANT WOOD AREA EDUCATION AGENCY 10

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Directors:		
Marlene Hill	Member	2005
William H. Carmichael	Member	2005
Robert Schneider	Member	2005
Randall W. Jordison	Member	2006
Sue Gates	Member	2006
Morris Greenfield	Member	2006
Dr. Lynne Cannon	President	2007
James C. Green	Vice President	2007
Janet Martin	Member	2007
Agency:		
Ronald S. Fielder	Administrator	
Ronald Bowers	Business Manager/Treasurer	
Kim Martin	Board Secretary	

Independent Auditor's Report

To the Board of Education of the
Grant Wood Area Education Agency 10

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Grant Wood Area Education Agency 10 as of and for the year ended June 30, 2005, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Grant Wood Area Education Agency 10 as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2005 on our consideration of Grant Wood Area Education Agency 10's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 29 through 30 are not required parts of the basic financial statements, but are supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grant Wood Area Education Agency 10's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Cedar Rapids, Iowa
September 22, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Grant Wood Area Education Agency provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund Revenues increased from \$33,895,140 in fiscal year 2004 (FY04) to \$36,121,069 in fiscal year 2005 (FY05), while General Fund Expenditures increased from \$33,384,582 in FY04 to \$35,474,636 in FY05. General Fund net change in fund balance increased from \$172,562 in FY04 to \$401,233 in FY05. This resulted in an increase in the Agency's General Fund fund balance from \$2,767,750 in FY04 to \$3,168,983 in FY05.
- The increase in General Fund revenues was attributable to increased state aid and federal grant revenue in FY05. The increase in expenditures was due primarily to an increase in services provided to the local school districts.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Grant Wood Area Education Agency as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, and Supplementary Information provides detailed information about other items of interest.

REPORTING THE AGENCY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The Government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the Agency's net assets and how they have changed. Net assets - the difference between the Agency's assets and liabilities - are one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the Government-wide financial statements, there are two categories of activities:

- *Governmental activities:* Represent basic Agency services; such as regular and special education instructions, student and instructional staff support services and administration. Local school districts, federal, and state aid finance most of these activities. All of Grant Wood Area Education Agency's services fall into this category.
- *Business-type activities:* Represent activities where the Agency charges fees to cover the costs of providing the service. The Agency has no activities that fall into this category.

The Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds - not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenues, such as federal grants.

The Agency has two kinds of funds:

- 1) *Governmental funds* account for most of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, and 3) the Debt Service Fund.

The governmental funds required financial statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balances.

- 2) *Fiduciary funds* account for assets held by the Agency as an agent for individuals, private organizations, or other governments that cannot be used to support their own governmental activities or programs. The fiduciary funds held by Grant Wood are agency fund types, held on a temporary, purely custodial basis, therefore, these activities are not included in the Agency's government-wide financial statements.

The fiduciary funds required financial statements include a statement of fiduciary net assets and a statement of changes in fiduciary net assets. However agency type funds do not have net assets, therefore, this statement is not prepared.

A summary reconciliation between the Government-wide financial statements and the fund financial statements follows the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Grant Wood Area Education Agency's net assets at the end of fiscal year 2005 totaled approximately \$8.9 million. This compared to approximately \$8.7 million at the end of fiscal 2004. The analysis that follows focuses on the net assets and changes in net assets. The agency does not have business-type activities.

	<u>Condensed Statement of Net Assets</u>	
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 9,347,258	\$ 8,474,677
Capital assets	<u>7,076,587</u>	<u>7,518,261</u>
Total assets	<u>16,423,845</u>	<u>15,992,938</u>
Long-term obligations	1,845,000	2,135,000
Other liabilities	<u>5,629,995</u>	<u>5,140,519</u>
Total liabilities	<u>7,474,995</u>	<u>7,275,519</u>
Net assets:		
Invested in capital assets, net of related debt	5,026,587	5,203,261
Restricted	1,242,816	1,212,591
Unrestricted	<u>2,679,447</u>	<u>2,301,567</u>
Total net assets	<u>\$ 8,948,850</u>	<u>\$ 8,717,419</u>

The following analysis details the changes in net assets of Grant Wood Area Education Agency's activities.

	<u>Changes in Net Assets</u>	
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Revenues:		
Program revenues:		
Charges for services	\$ 4,330,454	\$ 4,451,143
Operating grants and contributions	34,250,517	31,877,702
General revenues:		
Unrestricted investment earnings	<u>50,056</u>	<u>12,634</u>
Total revenues	<u>38,631,027</u>	<u>36,341,479</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

	<u>Changes in Net Assets</u>	
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Program expenses:		
Instruction	2,895,657	2,936,853
Student support services	21,844,666	20,287,683
Instructional staff support services	5,566,857	4,892,100
General administration	1,351,166	1,068,833
Building administration	1,400,136	1,413,081
Business administration	1,176,685	1,007,277
Plant operations and maintenance	898,231	893,852
Central and other support services	2,998,208	3,393,991
Non-instructional programs	59,520	907
Capital outlay	2,144	53,753
Unallocated	81,396	34,168
Long-term debt interest	<u>124,930</u>	<u>59,908</u>
Total expenses	<u>38,399,596</u>	<u>36,042,406</u>
Increase (decrease) in net assets	231,431	299,073
Net assets, beginning of year	<u>8,717,419</u>	<u>8,418,346</u>
Net assets, end of year	<u>\$ 8,948,850</u>	<u>\$ 8,717,419</u>

Operating grants and contributions from local, state and federal sources account for 88.7% in FY05 and 87.7% in FY04 of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 78.9% in FY05 and 78.0% in FY04 of the total expenses.

Governmental Activities

Revenues for governmental activities were \$38,631,027 in FY05 and \$36,341,479 in FY04 and expenses were \$38,194,322 in FY05 and \$36,092,713 in FY04. In a difficult budget year with unstable future funding sources, the Agency was able to implement cost saving measures to keep the revenues and operating expenditures relatively balanced.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As previously noted, Grant Wood Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's Governmental Funds reported combined fund balances of \$4,023,468, above last year's ending fund balances of \$3,599,607.

BUDGETARY HIGHLIGHTS

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect an increase in federal funding and adjustments to revenue and expenditures associated with the services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the Agency had invested \$7 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, equipment, and an extensive library/media collection. This is a net decrease of approximately \$440,000 from last year.

Grant Wood Area Education Agency had depreciation expense of \$1,146,387 in FY05 and total accumulated depreciation of \$8,112,323 at June 30, 2005. More detailed information about capital assets is available in Note 4 to the financial statements.

Debt

At June 30, 2005, the Agency had \$2,050,000 in long-term debt outstanding compared to \$2,315,000 at June 30, 2004. The long-term debt is in the form of capital lease purchase agreements. More detailed information about the Agency's long-term liabilities is available in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the Agency was aware of several existing circumstances that could significantly affect its financial health in the future:

- The Agency has experienced an increase in the number of students being served by its programs in the past three years. A slight increase in enrollment is expected and included in the FY06 budget.
- The State of Iowa continues to report revenue shortfalls as compared to estimated revenues. Therefore another cut in state aid could occur in FY06 or beyond.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office of Grant Wood Area Education Agency, 4401 6th Street SW, Cedar Rapids, Iowa 52404.

BASIC FINANCIAL STATEMENTS

GRANT WOOD AREA EDUCATION AGENCY 10**Exhibit A****Statement of Net Assets****June 30, 2005**

	<u>Governmental Activities</u>
ASSETS	
Cash and pooled investments	\$ 4,293,732
Receivables:	
Accounts	1,566,188
Due from other governments	3,433,857
Inventories	53,481
Capital assets, net of accumulated depreciation	<u>7,076,587</u>
Total assets	<u>16,423,845</u>
LIABILITIES	
Accounts payable	1,203,997
Salaries and benefits payable	2,538,346
Agency funds payable	1,041,829
Accrued other	167,855
Deferred revenue - local	472,968
Long-term liabilities:	
Portion due within one year:	
Certificates of participation	205,000
Portion due after one year:	
Certificates of participation	<u>1,845,000</u>
Total liabilities	<u>7,474,995</u>
NET ASSETS	
Invested in capital assets, net of related debt	5,026,587
Restricted for:	
Phase III	72,689
Media materials	438,523
Education services projects	336,972
Special education instruction	181,417
Debt service	213,215
Unrestricted	<u>2,679,447</u>
Total net assets	<u>\$ 8,948,850</u>

These financial statements should be read only in connection
with the accompanying notes to financial statements.

GRANT WOOD AREA EDUCATION AGENCY 10

Exhibit B

Statement of Activities

June 30, 2005

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 2,895,657	\$ 2,045,564	\$ 827,002	\$ (23,091)
Student support services	21,844,666	448,030	12,960,027	(8,436,609)
Instructional staff support services	5,566,857	471,955	1,378,590	(3,716,312)
General administration	1,351,166	43,677	7,709	(1,299,780)
Building administration	1,400,136	30	-	(1,400,106)
Business administration	1,176,685	1,737	19,629	(1,155,319)
Plant operations and maintenance	898,231	508	-	(897,723)
Central and other support services	2,998,208	1,318,930	237,315	(1,441,963)
Noninstructional programs	59,520	23	-	(59,497)
Capital outlay	2,144	-	-	(2,144)
Unallocated	81,396	-	18,820,245	18,738,849
Debt service	<u>124,930</u>	<u>-</u>	<u>-</u>	<u>(124,930)</u>
Total governmental activities	<u>\$ 38,399,596</u>	<u>\$ 4,330,454</u>	<u>\$ 34,250,517</u>	181,375
GENERAL REVENUES:				
Unrestricted investment earnings				<u>50,056</u>
CHANGE IN NET ASSETS				231,431
NET ASSETS, BEGINNING OF YEAR				<u>8,717,419</u>
NET ASSETS, END OF YEAR				<u>\$ 8,948,850</u>

These financial statements should be read only in connection
with the accompanying notes to financial statements.

GRANT WOOD AREA EDUCATION AGENCY 10

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2005

	<u>General</u>	<u>Special Revenue Off-Site Programs</u>	<u>Nonmajor</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
Cash and pooled investments	\$3,654,103	\$ -	\$ 639,629	\$ -	\$4,293,732
Receivables:					
Accounts	304,981	1,189,270	71,937	-	1,566,188
Due from other governments	3,433,857	-	-	-	3,433,857
Interfund receivables	806,687	-	-	(806,687)	-
Inventories	53,481	-	-	-	53,481
Prepaid expenses	-	-	-	-	-
Total assets	<u>\$8,253,109</u>	<u>\$1,189,270</u>	<u>\$ 711,566</u>	<u>\$ (806,687)</u>	<u>\$9,347,258</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$1,090,030	\$ 113,088	\$ 879	\$ -	\$1,203,997
Salaries and benefits payable	2,311,444	88,078	37,619	-	2,437,141
Agency fund payable	1,041,829	806,687	-	(806,687)	1,041,829
Accrued other	167,855	-	-	-	167,855
Deferred revenue-local	472,968	-	-	-	472,968
Total liabilities	<u>5,084,126</u>	<u>1,007,853</u>	<u>38,498</u>	<u>(806,687)</u>	<u>5,323,790</u>
Fund balances:					
Reserved for:					
Encumbrances	323,878	-	-	-	323,878
Inventories	53,481	-	-	-	53,481
Debt service	-	-	213,215	-	213,215
Unreserved:					
Designated for subsequent years expenditures	1,155,239	-	-	-	1,155,239
Undesignated, reported in:					
General fund	1,636,385	-	-	-	1,636,385
Special revenue funds	-	181,417	181,849	-	363,266
Debt service fund	-	-	278,004	-	278,004
Total fund balances	<u>3,168,983</u>	<u>181,417</u>	<u>673,068</u>	<u>-</u>	<u>4,023,468</u>
Total liabilities and fund balances	<u>\$8,253,109</u>	<u>\$1,189,270</u>	<u>\$ 711,566</u>	<u>\$ (806,687)</u>	<u>\$9,347,258</u>

These financial statements should be read only in connection
with the accompanying notes to financial statements.

GRANT WOOD AREA EDUCATION AGENCY 10

Exhibit D

**Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Assets**

June 30, 2005

Total fund balances of governmental funds (page 13) \$ 4,023,468

***Amounts reported for governmental activities in the
statement of net assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 7,076,587

Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (2,151,205)

Net assets of governmental activities (page 11) \$ 8,948,850

These financial statements should be read only in connection with the accompanying notes to financial statements.

GRANT WOOD AREA EDUCATION AGENCY 10

Exhibit E

**Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds**

Year Ended June 30, 2005

	<u>General</u>	<u>Off-site Programs</u>	<u>Nonmajor</u>	<u>Total</u>
Revenues:				
Local sources	\$ 11,410,827	\$ 1,661,745	\$ 59,655	\$ 13,132,227
State sources	9,860,453	-	743,447	10,603,900
Federal sources	<u>14,849,789</u>	<u>-</u>	<u>-</u>	<u>14,849,789</u>
Total revenues	<u>36,121,069</u>	<u>1,661,745</u>	<u>803,102</u>	<u>38,585,916</u>
Expenditures:				
Instruction	596,016	1,599,153	699,847	2,895,016
Student support services	21,842,877	-	-	21,842,877
Instructional staff support services	5,320,170	-	-	5,320,170
General administration	1,286,434	-	43,600	1,330,034
Building administration	1,400,136	-	-	1,400,136
Business administration	1,176,309	-	-	1,176,309
Plant operations and maintenance	894,915	-	-	894,915
Central and other support services	2,898,370	-	-	2,898,370
Noninstructional programs	59,409	-	-	59,409
Debt service	<u>-</u>	<u>-</u>	<u>1,464,930</u>	<u>1,464,930</u>
Total expenditures	<u>35,474,636</u>	<u>1,599,153</u>	<u>2,208,377</u>	<u>39,282,166</u>
Excess (deficiency) of revenues over (under) expenditures	<u>646,433</u>	<u>62,592</u>	<u>(1,405,275)</u>	<u>(696,250)</u>
Other financing sources (uses):				
Bond proceeds	-	-	1,075,000	1,075,000
Transfers in	45,111	-	290,311	335,422
Transfers out	<u>(290,311)</u>	<u>-</u>	<u>-</u>	<u>(290,311)</u>
Total other financing sources (uses)	<u>(245,200)</u>	<u>-</u>	<u>1,365,311</u>	<u>1,120,111</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	401,233	62,592	(39,964)	423,861
Fund balance, beginning of year	<u>2,767,750</u>	<u>118,825</u>	<u>713,032</u>	<u>3,599,607</u>
Fund balance, end of year	<u>\$ 3,168,983</u>	<u>\$ 181,417</u>	<u>\$ 673,068</u>	<u>\$ 4,023,468</u>

These financial statements should be read only in connection
with the accompanying notes to financial statements.

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities**

Year Ended June 30, 2005

Net change in fund balances - total governmental funds (page 15) \$ 423,861

*Amounts reported for governmental activities in the
statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, these costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as a depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 790,926	
Depreciation expense	(1,146,387)	
Loss on dispositions	<u>(86,213)</u>	(441,674)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities	1,340,000
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Compensated absences expenditures reported in the governmental funds were expensed in a prior year, therefore, are not reported as expenses in the Statement of Activities	(15,756)
--	----------

Proceeds on issuance of debt is a revenue in governmental funds, but it increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities	<u>(1,075,000)</u>
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Change in net assets of governmental activities (page 12) \$ 231,431

These financial statements should be read only in connection
with the accompanying notes to financial statements.

GRANT WOOD AREA EDUCATION AGENCY 10

Exhibit G

**Statement of Fiduciary Net Assets
Fiduciary Funds - Agency**

June 30, 2005

Assets

Accounts receivable	\$ 234,974
Due from other governments	35,460
General fund receivable	1,041,829
Equipment, net	<u>8,690</u>
Total assets	<u>\$1,320,953</u>

Liabilities

Accounts payable	\$ 321,660
Salaries and benefits payable	24,514
Deposits held in custody for others	<u>974,779</u>
Total liabilities	<u>\$1,320,953</u>

These financial statements should be read only in connection
with the accompanying notes to financial statements.

GRANT WOOD AREA EDUCATION AGENCY 10

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

Grant Wood Area Education Agency 10 (Agency) is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 68 school districts and private schools in a seven-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, Grant Wood Area Education Agency 10 has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. Grant Wood Area Education Agency 10 has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

GRANT WOOD AREA EDUCATION AGENCY 10

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. The major individual governmental fund is reported as a separate column in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental funds:

The General Fund is the general operating fund of the Agency. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue - Off-site Programs fund is used to account for special education instruction costs held off-site. The actual costs of providing instructional services are billed to the individual school districts.

The Agency Funds are used to account for assets held by the Agency as an agent for individuals, private organizations, and other governments. The Agency Funds are custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus. The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year end.

GRANT WOOD AREA EDUCATION AGENCY 10

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

All short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Inventories - Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$	1,000
Buildings		1,000
Improvements other than buildings		1,000
Furniture and equipment		1,000
Library books and film		Cost

Property, furniture, and equipment are depreciated using the straight-line method of depreciation and library books are depreciated using the composite method over the following estimated useful lives:

GRANT WOOD AREA EDUCATION AGENCY 10

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50
Improvements other than buildings	20
Furniture and equipment	5
Library books and film	10

Salaries and Benefits Payable - Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year end.

Compensated Absences - Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the statement of net assets representing the Agency's commitment to fund non-current compensated balances. This liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term Obligations - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

(2) Cash and Pooled Investments

The Agency's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. The chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

GRANT WOOD AREA EDUCATION AGENCY 10

Notes to Financial Statements

June 30, 2005

(2) Cash and Pooled Investments (continued)

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Agency's investments at June 30, 2005 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Money market held at brokerage firm	\$ 123,707	\$ 123,707

The Agency had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$89,508 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

Credit risk. The investment in the Iowa Schools Joint Investment Trust is rated Aaa by Moody's Investors Service.

(3) Interfund Balances

Interfund balances at June 30, 2005 consisted of the following:

Due to agency funds from general funds for deposits held in Agency custody	\$1,041,829
Due to general fund from special revenue - off-site programs fund for balances that resulted from the time lag between the dates that (1) interfund goods and services are performed or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made	806,687

GRANT WOOD AREA EDUCATION AGENCY 10

Notes to Financial Statements

June 30, 2005

(4) Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 242,350	\$ -	\$ -	\$ 242,350
Capital assets being depreciated:				
Buildings	5,944,794	-	-	5,944,794
Leasehold improvements	611,686	-	-	611,686
Furniture and equipment	4,455,625	562,608	740,249	4,277,984
Library books and film	<u>4,153,513</u>	<u>228,318</u>	<u>269,735</u>	<u>4,112,096</u>
Total assets being depreciated	<u>15,165,618</u>	<u>790,926</u>	<u>1,009,984</u>	<u>14,946,560</u>
Less accumulated depreciation for:				
Buildings	2,361,969	118,896	-	2,480,865
Leasehold improvements	59,126	25,654	-	84,780
Furniture and equipment	2,554,831	590,627	654,035	2,491,423
Library books and film	<u>2,913,781</u>	<u>411,210</u>	<u>269,736</u>	<u>3,055,255</u>
Total accumulated depreciation	<u>7,889,707</u>	<u>1,146,387</u>	<u>923,771</u>	<u>8,112,323</u>
Total capital assets being depreciated, net	<u>7,275,911</u>	<u>(355,461)</u>	<u>86,213</u>	<u>6,834,237</u>
Governmental activities capital assets, net	<u>\$7,518,261</u>	<u>\$ (355,461)</u>	<u>\$ 86,213</u>	<u>\$7,076,587</u>

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:	
Instruction	\$ 2,550
Student support services	7,123
Instructional staff support services	609,438
General administration	84,125
Business administration	1,498
Plant operations and maintenance	13,203
Central and other support services	215,082
Noninstructional programs	441
Facilities acquisition and construction	8,537
Unallocated	<u>204,390</u>
Total governmental activities depreciation expense	<u>\$1,146,387</u>

GRANT WOOD AREA EDUCATION AGENCY 10

Notes to Financial Statements

June 30, 2005

(5) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>
Certificates of Participation	<u>\$2,315,000</u>	<u>\$1,075,000</u>	<u>\$1,340,000</u>	<u>\$2,050,000</u>

Certificates of Participation

The Agency has sold certificates of participation for land, facilities and improvements. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of fifteen years with interest rates ranging from 2.55% to 5.15%. The following is a schedule by year of the future minimum payments required:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 205,000	\$ 88,781	\$ 293,781
2007	205,000	78,266	283,266
2008	200,000	71,024	271,024
2009	195,000	63,866	258,866
2010	150,000	56,066	206,066
Thereafter	<u>1,095,000</u>	<u>257,861</u>	<u>1,352,861</u>
Total	<u>\$ 2,050,000</u>	<u>\$ 615,864</u>	<u>\$ 2,665,864</u>

Payments for the certificates of participation for the year ended June 30, 2005, including interest, totaled \$1,451,852.

Advance Refunding

On May 31, 2005, the Agency issued \$1,075,000 in Certificates of Participation with interest rates ranging from 3.50% to 4.00%, to refund \$1,160,000 of outstanding 1997 Certificates of Participation with interest rates ranging from 4.90% to 5.25%, prior to maturity. Net proceeds of \$1,083,900 were received after payment of underwriting fees, insurance, and other issuance costs. As a result, the 1997 Certificates are considered to be in-substance defeased and the liability for those Certificates has been removed from the Agency-wide financial statements.

The Agency refunded the 1997 Certificates to reduce its total debt service payments over the next 7 years by approximately \$163,235 resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$80,900.

GRANT WOOD AREA EDUCATION AGENCY 10

Notes to Financial Statements

June 30, 2005

(6) Operating Leases

The Agency has leased office equipment and various facilities within the area to house the different divisions of the Agency. These leases have been classified as operating leases and, accordingly, all rents are charged to expenditures as incurred. The leases expire between July 2006 and August 2010. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties and equipment. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2005:

Year Ending <u>June 30</u>	<u>Amount</u>
2006	\$ 230,586
2007	205,202
2008	197,658
2009	22,941
2010	<u>1,754</u>
Total	<u>\$ 658,141</u>

The total rental expenditures for the year ended June 30, 2005 for all operating leases, except those with terms of a month or less that were not renewed, was \$249,791.

(7) Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$1,262,911, \$1,221,255, and \$1,218,018, respectively, equal to the required contributions for each year.

GRANT WOOD AREA EDUCATION AGENCY 10

Notes to Financial Statements

June 30, 2005

(8) Interfund Transfers

Interfund transfers for the year ended June 30, 2005, consisted of the following:

Transfer to debt service fund from general fund for debt service payments	\$ 290,311
Transfer to general fund from an agency fund for program balance	<u>45,111</u>
Total	<u>\$ 335,422</u>

(9) Risk Management

Grant Wood Area Education Agency 10 is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Commitments and Contingencies

Employee benefits - Employees accumulate sick pay based upon months of service. Unused sick days may be carried forward until needed by the employee. Upon termination, retirement or death, unused days are forfeited; therefore no accrual is required.

Post employment benefits - The Agency has adopted an early retirement program for its employees. To be eligible, an employee must (1) have 20 years of continuous service, (2) not be receiving disability payments, and (3) be neither more than 62 nor less than 55 years of age on June 30 of the calendar year in which retirement is to begin. The retirement benefit is equal to 50% of the average annual pay of the employee's highest three fiscal years. The retirement benefit shall be paid in one or two lump sum payments. The Agency will continue to provide life insurance benefits up to the age of 65 and contribute up to \$140 of single coverage monthly premium cost toward the purchase of group medical, dental and/or vision insurance. The cost of retiree health care and life insurance benefits is recognized as claims and premiums are paid. In the event of death of the employee prior to the payment of the retirement benefit, a lump sum payment of the amount due shall be made to the designated beneficiary. Early retirement benefits paid to six participants during the year ended June 30, 2005 totaled \$145,168. Health care and life insurance claims and premiums paid for 28 participants totaled \$44,113.

Litigation - The Agency is a defendant in a judicial appeal of a special education claim with a student. The appeal seeks appropriateness of educational planning and a request for attorney fees. The amount of liability, if any, from the outcome of this claim cannot presently be estimated.

GRANT WOOD AREA EDUCATION AGENCY 10

Notes to Financial Statements

June 30, 2005

(11) New Pronouncements

As of June 30, 2005, the Governmental Accounting Standards Board had issued several statements not yet implemented by the Agency. The statements, which might impact the Agency, are as follows:

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, issued November 2003, will be effective for the Agency beginning with its year ending June 30, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004, will be effective for the Agency beginning with its year ending June 30, 2008. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB) and supercedes existing guidance.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the Agency beginning with its year ending June 30, 2009. This Statement requires governments to report any liability associated with providing employees benefits other than pensions subsequent to their employment with the Agency that have not been fully funded.

Statement No. 47, *Accounting for Termination Benefits*, issued June 2005, will be effective for the Agency beginning with its year ending June 30, 2006. This Statement provides uniform accounting and reporting requirements on termination benefits in accrual basis financial statements.

The Agency's management has not yet determined the effect these Statements will have on the Agency's financial statements.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

GRANT WOOD AREA EDUCATION AGENCY 10

**Statement of Revenues, Expenditures, and Changes in Balances
Budget and Actual
All Governmental Funds**

Year Ended June 30, 2005

	<u>Actual</u>	<u>Budget</u>		<u>Final to Actual Variance- Favorable (Unfavorable)</u>
		<u>Original</u>	<u>Final</u>	
Revenues:				
Local sources	\$ 13,132,227	\$ 12,523,400	\$ 12,988,873	\$ 143,354
State sources	10,603,900	11,604,300	10,632,766	(28,866)
Federal sources	<u>14,849,789</u>	<u>13,214,800</u>	<u>15,224,375</u>	<u>(374,586)</u>
Total revenues	<u>38,585,916</u>	<u>37,342,500</u>	<u>38,846,014</u>	<u>(260,098)</u>
Expenditures:				
Instruction	2,895,016	2,718,900	3,063,970	168,954
Student support services	21,842,877	20,879,700	22,318,500	475,623
Instructional staff support services	5,320,170	5,485,600	5,258,220	(61,950)
General administration	1,330,034	1,322,000	1,171,437	(158,597)
Building administration	1,400,136	1,435,700	1,422,985	22,849
Business administration	1,176,309	1,021,000	511,312	(664,997)
Plant operations and maintenance	894,915	1,128,600	996,289	101,374
Central and other support services	2,898,370	2,867,900	4,244,486	1,346,116
Noninstructional programs	59,409	51,300	1,000	(58,409)
Debt service	1,464,930	333,500	295,000	(1,169,930)
Capital outlay	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>39,282,166</u>	<u>37,344,200</u>	<u>39,283,199</u>	<u>1,033</u>
Deficiency of revenues under expenditures	(696,250)	(1,700)	(437,185)	(259,065)
Other financing uses, net	<u>1,120,111</u>	<u>-</u>	<u>-</u>	<u>1,120,111</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	423,861	(1,700)	(437,185)	861,046
Balance beginning of year	<u>3,599,607</u>	<u>3,350,841</u>	<u>3,599,607</u>	<u>-</u>
Balance, end of year	<u>\$ 4,023,468</u>	<u>\$ 3,349,141</u>	<u>\$ 3,162,422</u>	<u>\$ 861,046</u>

See accompanying independent auditor's report.

GRANT WOOD AREA EDUCATION AGENCY 10

Note to Required Supplementary Information Budgetary Reporting

June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with *Governmental Accounting Standards Board* Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with accounting principles generally accepted in the United States of America. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

OTHER SUPPLEMENTARY INFORMATION

GRANT WOOD AREA EDUCATION AGENCY 10

Schedule 1

**Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2005

	<u>Special Revenue</u>			
	<u>Pool</u>	<u>Juvenile</u>	<u>Debt</u>	
	<u>Transportation</u>	<u>Home</u>	<u>Service</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 181,849	\$ (33,439)	\$ 491,219	\$ 639,629
Receivables:				
Accounts	<u>-</u>	<u>71,937</u>	<u>-</u>	<u>71,937</u>
Total assets	<u>\$ 181,849</u>	<u>\$ 38,498</u>	<u>\$ 491,219</u>	<u>\$ 711,566</u>
 Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ 879	\$ -	\$ 879
Salaries and benefits payable	<u>-</u>	<u>37,619</u>	<u>-</u>	<u>37,619</u>
Total liabilities	<u>-</u>	<u>38,498</u>	<u>-</u>	<u>38,498</u>
Fund Balances:				
Reserved:				
Debt service	-	-	213,215	213,215
Unreserved, undesignated	<u>181,849</u>	<u>-</u>	<u>278,004</u>	<u>459,853</u>
Total fund balances	<u>181,849</u>	<u>-</u>	<u>491,219</u>	<u>673,068</u>
Total liabilities and fund balances	<u>\$ 181,849</u>	<u>\$ 38,498</u>	<u>\$ 491,219</u>	<u>\$ 711,566</u>

See accompanying independent auditor's report.

GRANT WOOD AREA EDUCATION AGENCY 10

Schedule 2

**Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds**

Year Ended June 30, 2005

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>Pool Transportation</u>	<u>Juvenile Home</u>		
Revenues:				
Local sources	\$ 37,306	\$ -	\$ 22,349	\$ 59,655
State sources	<u>-</u>	<u>743,447</u>	<u>-</u>	<u>743,447</u>
Total revenues	<u>37,306</u>	<u>743,447</u>	<u>22,349</u>	<u>803,102</u>
Expenditures:				
Instruction	-	699,847	-	699,847
General administration	-	43,600	-	43,600
Debt service	<u>-</u>	<u>-</u>	<u>1,464,930</u>	<u>1,464,930</u>
Total expenditures	<u>-</u>	<u>743,447</u>	<u>1,464,930</u>	<u>2,208,377</u>
Excess (deficiency) of revenues over (under) expenditures	37,306	-	(1,442,581)	(1,405,275)
Other financing sources:				
Bond proceeds	-	-	1,075,000	1,075,000
Transfers in	<u>-</u>	<u>-</u>	<u>290,311</u>	<u>290,311</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	37,306	-	(77,270)	(39,964)
Fund balances, beginning of year	<u>144,543</u>	<u>-</u>	<u>568,489</u>	<u>713,032</u>
Fund balances, end of year	<u>\$ 181,849</u>	<u>\$ -</u>	<u>\$ 491,219</u>	<u>\$ 673,068</u>

See accompanying independent auditor's report.

GRANT WOOD AREA EDUCATION AGENCY 10**Schedule 3****Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds****Year Ended June 30, 2005**

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
Assets				
Accounts receivable	\$ 732,470	\$2,151,727	\$2,649,223	\$ 234,974
Due from other governments	322,883	515,944	803,367	35,460
General fund receivable	1,174,208	3,452,590	3,584,969	1,041,829
Equipment, net	<u>11,587</u>	<u>-</u>	<u>2,897</u>	<u>8,690</u>
Total assets	<u>\$2,241,148</u>	<u>\$6,120,261</u>	<u>\$7,040,456</u>	<u>\$1,320,953</u>
Liabilities				
Accounts payable	\$ 639,022	\$1,829,358	\$2,146,720	\$ 321,660
Salaries and benefits payable	21,506	726,872	723,864	24,514
Accrued other	-	121,685	121,685	-
Deferred revenue	547,486	-	547,486	-
Deposits held in custody for others	<u>1,033,134</u>	<u>-</u>	<u>58,355</u>	<u>974,779</u>
Total liabilities	<u>\$2,241,148</u>	<u>\$2,677,915</u>	<u>\$3,598,110</u>	<u>\$1,320,953</u>

See accompanying independent auditor's report.

GRANT WOOD AREA EDUCATION AGENCY 10**Schedule 4****Schedule of Revenues by Source and Expenditures by Function
All Governmental Fund Types****For the Last Four Years**

	<u>Years Ended June 30,</u>			
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues:				
Local sources	\$ 13,132,227	\$ 13,037,224	\$ 12,209,133	\$ 11,696,661
State sources	10,603,900	10,300,970	11,591,250	12,315,824
Federal sources	<u>14,849,789</u>	<u>13,003,285</u>	<u>10,971,592</u>	<u>8,943,745</u>
Total revenues	<u>\$ 38,585,916</u>	<u>\$ 36,341,479</u>	<u>\$ 34,771,975</u>	<u>\$ 32,956,230</u>
Expenditures:				
Instruction	\$ 2,895,016	\$ 2,935,981	\$ 2,552,239	\$ 2,118,616
Student support services	21,842,877	20,282,887	19,352,674	17,854,011
Instructional staff support services	5,320,170	4,792,394	4,671,453	4,964,877
General administration	1,330,034	1,052,261	1,169,882	1,339,004
Building administration	1,400,136	1,413,081	1,262,465	1,261,330
Business administration	1,176,309	1,006,928	1,131,737	1,058,055
Plant operations and maintenance	894,915	891,464	1,022,349	844,929
Central and other support services	2,898,370	3,377,635	2,806,745	3,534,387
Noninstructional programs	59,409	678	31,145	32,558
Debt service	1,464,930	287,408	288,311	415,756
Capital outlay	<u>-</u>	<u>51,996</u>	<u>95,641</u>	<u>1,383,963</u>
Total expenditures	<u>\$ 39,282,166</u>	<u>\$ 36,092,713</u>	<u>\$ 34,384,641</u>	<u>\$ 34,807,486</u>

See accompanying independent auditor's report.

GRANT WOOD AREA EDUCATION AGENCY 10**Schedule 5****Schedule of Expenditures of Federal Awards****Year Ended June 30, 2005**

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
Direct:			
U.S. Department of Education:			
Special Education - Research and Innovation to Improve Services and Results for Children with Disabilities	84.324		
Super Seniors - South		H324R010020	\$ 139,730
Super Seniors - North		H324M010097	86,372
			<u>226,102</u>
Indirect:			
U.S. Department of Education:			
Iowa Department of Education:			
Special Education - Grants to States	84.027*		
Preschool Handicapped Program		040510	8,759,179
Supplemental Support Services		4K72-10	169,344
Diagnostic and Evaluation			
Entitlement Program		4K71-10	1,362
Success 4		4K75-10	12,184
Parent Educator Partnership		047410	127,303
Information management systems		4K70-IMS	224,719
Paraeducator training project		4K76-10	22,259
IDEA - Flowthrough to LEA		5KB2-10	3,241,612
			<u>12,557,962</u>
Special Education - Preschool Grants	84.173	04619-10	<u>403,866</u>
Special Education - Grants for Infants and Families with Disabilities:	84.181		
Part C - Infant & Toddler		C04-10	<u>303,255</u>
Perkins Vocational Education	84.048	04-05	<u>305,552</u>
Reading First State Grants	84.357	04-05	<u>21,100</u>
English Language Acquisition Grants	84.365	04-05	<u>50,246</u>

(continued)

GRANT WOOD AREA EDUCATION AGENCY 10

Schedule 5

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
Education Technology State Grants (Enhancing Education Through Technology Programs)	84.318X	E2T2	<u>698,799</u>
Iowa Department of Corrections: Special Education - Grants to States Inmate Screening	84.027*	99301	<u>83,554</u>
Iowa Public Television: Star Schools	84.203	Peitzman Eastman Wordell	57,519 36,326 36,326 <u>130,171</u>
Total			<u>\$14,780,607</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Grant Wood Area Education Agency 10 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

* Total expenditures for CFDA Number 84.027 were \$12,641,516.

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Board of Directors
Grant Wood Area Education Agency 10
Cedar Rapids, Iowa

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Grant Wood Area Education Agency 10 as of and for the year ended June 30, 2005, which collectively comprise Grant Wood Area Education Agency 10's basic financial statements and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grant Wood Area Education Agency 10's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted other matters involving the internal control over financial reporting that we have reported to management of Grant Wood Area Education Agency 10 in a separate letter dated September 22, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grant Wood Area Education Agency 10's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Grant Wood Area Education Agency 10's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Grant Wood Area Education Agency 10. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Grant Wood Area Education Agency 10, and other parties to whom Grant Wood Area Education Agency 10 may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Grant Wood Area Education Agency 10 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Clifton Gunderson LLP

Cedar Rapids, Iowa
September 22, 2005

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Board of Directors
Grant Wood Area Education Agency 10
Cedar Rapids, Iowa

Compliance

We have audited the compliance of Grant Wood Area Education Agency 10 with the types of compliance requirements described in *the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Grant Wood Area Education Agency 10's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Grant Wood Area Education Agency 10's management. Our responsibility is to express an opinion on Grant Wood Area Education Agency 10's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Grant Wood Area Education Agency 10's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Grant Wood Area Education Agency 10's compliance with those requirements.

In our opinion, Grant Wood Area Education Agency 10 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Grant Wood Area Education Agency 10 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Grant Wood Area Education Agency 10's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Grant Wood Area Education Agency 10, and other parties to whom Grant Wood Area Education Agency 10 may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Cedar Rapids, Iowa
September 22, 2005

GRANT WOOD AREA EDUCATION AGENCY 10

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) The audit did not disclose any non-compliance which is material to the financial statements.
- (c) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (d) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (e) Major programs were as follows:
 - Cluster programs:
 - CFDA Number 84.027 - Special Education - Grant to States
 - CFDA Number 84.173 - Special Education - Preschool Grants
 - CFDA Number 84.181 - Special Education - Grants for Infants and Families with Disabilities: Part C - Infant & Toddler
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$443,413.
- (i) Grant Wood Area Education Agency 10 qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

No matters were noted.

GRANT WOOD AREA EDUCATION AGENCY 10

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Section IV - Other Findings Related to Required Statutory Reporting

- IV-A-05 Official Depositories - A resolution naming official depositories has been adopted by the Agency. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- IV-B-05 Budget - Expenditures during the year ended June 30, 2005 did not exceed the amount budgeted.
- IV-C-05 Questionable Expenditures - No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-D-05 Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-E-05 Business Transactions - No business transactions between the Agency and Agency officials and/or employees were noted.
- IV-F-05 Bond Coverage - Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- IV-G-05 Board Minutes - No transactions requiring Board approval were noted which had not been approved.
- IV-H-05 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.
- IV-I-05 Certified Annual Report - The Certified Annual Report (CAR) was filed with the Department of Education timely and we noted no significant discrepancies in the amounts reported.

GRANT WOOD AREA EDUCATION AGENCY 10

Summary Schedule of Prior Federal Audit Findings

Year Ended June 30, 2005

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not corrected, provide planned corrective action or other explanation.</u>
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There were no prior year federal audit findings.

GRANT WOOD AREA EDUCATION AGENCY 10

Audit Staff

This audit was performed by:

Robert L. Poundstone, CPA, Partner

Michele M. Matt, CPA, Manager

Tim Wood, CPA, Senior Associate

Jim Fitzpatrick, CPA, Associate

Justin Zimmerman, CPA, Associate